



Claire McCaskill

Missouri State Auditor

December 2005

Missouri Technology Corporation



Office Of
Missouri State Auditor
Claire McCaskill

December 2005

The following findings were noted as a result of an audit conducted by our office of the Missouri Technology Corporation.

The purposes of the Missouri Technology Corporation (MTC) are to contribute to the strengthening of the economy of the state through development of science and technology. Originally, the primary function of MTC was to act as an advisory board with administrative functions for the MTC provided by Department of Economic Development (DED) staff. In January 2005, the MTC hired a full-time executive director, Joe Driskill, the former director of DED.

The MTC maintains one bank account, established by the DED in 1995. The account did not have collateral security coverage for monies in excess of the Federal Deposit Insurance Corporation (FDIC) limit of \$100,000, as required by state law. At June 30, 2005, the bank balance exceeded FDIC coverage by \$197,692.

The MTC established the Research Alliance of Missouri (RAM) under a contract with DED and handles the administrative functions for RAM. RAM funds support 25 percent of the executive director's salary and office expenses.

The MTC issued a check from RAM funds in the amount \$6,432 to the University of Missouri-St. Louis (UMSL) to reimburse costs related to a sponsorship of a nanotechnology conference held in St. Louis. The invoice from UMSL listed two line items: \$5,289 for dinner, accommodations and parking for the conference; and \$1,143 to UMSL for a meeting room, audio visual equipment, breakfast, break, lunch, and setup. UMSL submitted detailed invoices from the conference hotel and the UMSL charges. The hotel invoice included beverage charges for \$630. We determined the beverage charges were for wines totaling \$140, and an open bar serving alcoholic beverages totaling \$490. The use of funds for entertainment expenses is expressly prohibited by both DED contractual restrictions, and MTC and RAM policy.

The MTC retained the services of a local CPA firm which submitted an engagement letter specifying the range of monthly, quarterly, and annual charges. The MTC requested additional procedures be performed beyond the scope of the original agreement. The CPA firm has been paid \$15,956, \$5,771, and \$1,950 in fiscal years 2005, 2004, and 2003, respectively. The invoices lacked sufficient detail to determine if the billings were in accordance with the agreed upon rates and failed to include the number of hours billed for each task.

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YELLOW SHEET

MISSOURI TECHNOLOGY CORPORATION
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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

Mr. Donn Rubin, Chairman
and
Members of the Board of the
Missouri Technology Corporation
P.O. Box 2137
Jefferson City, MO 65101

We have audited the Missouri Technology Corporation. The scope of this audit included, but was not necessarily limited to, the five years ended June 30, 2005. The objectives of this audit were to:

1. Review internal controls over significant management and financial functions.
2. Review compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations.

Our methodology to accomplish these objectives included reviewing minutes of meetings, written policies, financial records, and other pertinent documents; interviewing various personnel of the corporation, as well as certain external parties; and testing selected transactions.

In addition, we obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. We also performed tests of certain controls to obtain evidence regarding the effectiveness of their design and operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We also obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the corporation's management and was not subjected to the procedures applied in the audit of the corporation.

The accompanying Management Advisory Report presents our findings arising from our audit of the Missouri Technology Corporation.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" written in a larger, more prominent script than the last name "McCaskill".

Claire McCaskill
State Auditor

August 8, 2005 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
Audit Manager:	John Blattel, CPA, CFE
In-Charge Auditor:	Dennis Lockwood, CPA

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

MISSOURI TECHNOLOGY CORPORATION
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1.	Collateral Security
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The Missouri Technology Corporation (MTC) maintains one bank account. The account was originally established by the Department of Economic Development (DED) in 1995. The DED performed the administrative functions for the MTC until January 2004, at which time MTC hired a full time executive director.

The account did not have collateral security coverage for monies in excess of the FDIC limit of \$100,000. Chapter 110, RSMo 2004, requires public funds of state institutions to be fully secured. Prior to fiscal year 2002, the MTC bank account balance did not exceed \$100,000. The bank balance exceeded \$100,000 for the following periods and the highest dollar amount that was not covered by collateral securities during each period were as follows:

Beginning Date	Ending Date	Highest \$ Amount Not Secured
September 18, 2001	September 23, 2001	\$ 13,569
February 15, 2002	June 15, 2002	286,233
November 22, 2002	January 12, 2003	285,620
April 4, 2003	April 28, 2003	24,937
May 4, 2004	June 30, 2005	\$ 241,412

At June 30, 2005, the bank balance exceeded FDIC coverage by \$197,692.

WE RECOMMEND the Missouri Technology Corporation ensure funds are fully protected by collateral securities at all times.

AUDITEE'S RESPONSE

We agree with the recommendation that the MTC's bank deposits should be fully protected with collateral securities. Our banking account with Central Bank was established in 1995 by the Missouri Department of Economic Development on behalf of the MTC. Since the account was established by a state agency, we assumed that the account had protections that would be appropriate for the deposit of funds the MTC received from the state. While the MTC is not a state agency and may not be bound by the statutory requirement for fully securing its deposits, we believe it is important to use the same standards for deposits that would apply to a state agency. Clearly, our deposits up to \$100,000 are protected by FDIC insurance, and we believe our depository, Central Bank, is in a strong financial position. However, out of an abundance of caution and in response to the Auditor's recommendation, at its August 26, 2005 meeting, the MTC Board authorized the Executive Director to enter into a "Cash Management Investment Account" at Central Bank in Jefferson City to provide for collateralization of the MTC's deposits

that exceed the FDIC insurance coverage. The agreement with Central Bank was subsequently executed.

2.

Expenditure Controls

The MTC established the Research Alliance of Missouri (RAM) under a contract with DED and handles the administrative functions for RAM. RAM funds support 25 percent of the executive director's salary and office expenses. The funds MTC receives are designated for either MTC or RAM by the DED. MTC uses fund accounting methods to ensure MTC and RAM activities are paid from the proper fund. MTC and RAM monies are included in one bank account and the MTC chairman and secretary-treasurer are the required signatories for checks over \$1,000 and checks issued to the executive director. The MTC executive director has authority to sign checks for amounts of less than \$1,000 except for payments to himself. The MTC executive committee, consisting of the chairman, secretary treasurer, one board member and the executive director, authorizes payments from MTC funds following MTC board directives. The RAM board authorizes payments from RAM funds with the checks being signed by MTC chairman, secretary treasurer or executive director, as appropriate.

The MTC and RAM did not always require adequate detail on vendors invoices. As a result, it was not always possible to determine if the charges were in compliance with written and oral agreements with the vendors or were in violation of MTC and RAM policies and the contracts with the DED.

- A. The MTC issued a check from RAM funds in the amount of \$6,432 to the University of Missouri - St. Louis (UMSL) to reimburse costs related to a sponsorship of a nanotechnology conference held in St. Louis. The payment voucher requesting the check indicated the RAM board had approved the payment during the May 18, 2004 meeting. We reviewed the minutes of that RAM meeting and noted that a motion had been made to deny the payment but this motion was never voted upon. A subsequent motion authorized only consideration of support of future meetings for a working group emerging from the nanotechnology conference. Due to a misinterpretation of the motions, the payment voucher was prepared and check was issued and signed by the MTC Board Chairman and the Secretary Treasurer.

The invoice from UMSL listed two line items: \$5,289 for dinner, accommodations and parking for the conference; and \$1,143 to UMSL for a meeting room, audio visual equipment, breakfast, break, lunch, and setup. We contacted UMSL who submitted a detailed invoice from the conference hotel and a detailed invoice of the UMSL charges. The hotel invoice listed the following line items and amounts:

Description	Amount
Banquet	\$1,810
Beverages	630
Gratuity	464
Rooms & Parking	2,385
Total	\$5,289

We contacted the hotel and determined the beverage charges were for wines totaling \$140, and an open bar serving alcoholic beverages totaling \$490. The use of funds for entertainment expenses is expressly prohibited by both DED contractual restrictions, and MTC and RAM policy. After bringing this matter to the attention of the MTC executive director, a request was made to UMSL for a refund of the \$630 paid for the alcoholic beverages. The failure to require adequately detailed invoices resulted in the inappropriate payment.

- B. We noted the MTC, to enhance internal controls and acquire accounting expertise without hiring additional staff, retained the services of a local CPA firm to control the checkbook, prepare checks for signature based upon payment vouchers and record the transactions in an accounting software program, perform bank reconciliations, compile monthly and quarterly financial reports, calculate payroll checks, and file the appropriate payroll tax reports and the federal Form 990 for not-for-profit organizations. The accounting firm submitted an engagement letter specifying the range of monthly, quarterly, and annual charges.

The MTC requested additional procedures be performed beyond the scope of the original agreement. The CPA firm was paid \$15,956, \$5,771, and \$1,950 in fiscal years 2005, 2004 and 2003, respectively. The invoices from the accounting firm provided a listing by date and type of task performed during the month and a total invoice amount due. However, the invoices lacked sufficient detail to determine if the billings were in accordance with the agreed upon rates. In addition, the invoices failed to include the number of hours billed for each task. We requested additional supporting detail from the CPA firm for one of the larger invoices. This additional detail included the number of hours and the line item charge for each task and was sufficient to allow the determination that the total amount billed was reasonable. The MTC executive director indicated in the future he would request additional detailed invoices when the original invoices were not adequately detailed.

- C. The MTC had issued a payment of \$4,000 to the Hawthorne Foundation for the MTC's sponsorship share for a booth and promotional activities at the 2005 national biotechnology conference. The payment voucher and the check were dated May 18, 2005. There was an e-mail communication from a DED staff member requesting the payment dated May 17, 2005. The invoice was not issued by the Hawthorne Foundation until June 13, 2005. The issuance of payment prior to receiving a vendor invoice, even when the amount is known with certainty, is not a sound business practice. The MTC should ensure vendor invoices

containing adequate detail have been received and reviewed prior to issuance of payment vouchers.

WE RECOMMEND the Missouri Technology Corporation ensure vendor invoices are received prior to payment, are adequately detailed to allow determination that the specific items and services billed are in accordance with agreed upon prices or rates, are in accordance with MTC and RAM policies and contracts, and all purchases have been approved by the MTC executive committee or RAM board, as appropriate.

AUDITEE'S RESPONSE

We agree with the Auditor's recommendation that the MTC should strengthen its policies and practices related to the handling of invoices and the payment of vendors. Even though no MTC or RAM funds were expended for services that were not received by the organizations nor was any money lost, we believe we should have had a more rigorous process in place to examine the invoices that were received and to approve of the expenditures that were made.

In the first instance cited by the Auditor, the MTC reimbursed UMSL for part of the expenses the University incurred as a part of its sponsorship of the Missouri Nanotechnology Conference in 2004. UMSL submitted an invoice to the MTC and RAM as a request for reimbursement of expenses, a process that was agreed upon by RAM. Unbeknownst to the Executive Director, the MTC Board and the RAM Board, the reimbursement made to UMSL included a \$630 amount for wine and beer served at a conference reception. We agree this reimbursement was inappropriate and we should have asked for a more detailed invoice from UMSL that would have revealed the inappropriate request. When the inappropriate reimbursement was discovered, RAM requested that UMSL pay back the \$630 amount in question. That amount was received and deposited in the MTC/RAM account.

In its second observation, the Auditor recommended the MTC request a more detailed breakdown of the expenses billed by the MTC's CPA firm. The invoices received by the MTC historically have not included detailed breakdowns of the type of task performed during the month, the number of hours required and the rate charged for those tasks. While we do not believe we have been billed inappropriately for our accounting services in the past, we will require that all future invoices include greater detail.

The Auditor's final observation was that the MTC made a payment of \$4,000 to the Hawthorn Foundation, a not-for-profit organization operating in conjunction with the Department of Economic Development, before an invoice was received by the MTC. The payment in question was for RAM's participation in the BIO 2005 international biotechnology conference. The Executive Director of the MTC/RAM requested an invoice from the Hawthorn Board weeks in advance of the required deadline for RAM participation in the conference. The invoice did not arrive at the deadline for payment of RAM's participation fee. The Executive Director sought and received e-mail and telephone confirmation of the amount owed and that the invoice would be provided. However, the conference deadline did not allow the invoice to be delivered before payment was required. While no money was spent inappropriately and RAM was able to

participate in the BIO conference, we agree that all future expenditures should be based on a written invoice received before a check is written.

As a result of the Auditor's recommendation, the MTC Board adopted a change in its formal policy for dealing with expenditure controls at its August 26, 2005 Board meeting. According to the policy, invoices with greater detail will be required from vendors and no payment will be made until a written invoice is received. In addition, the MTC and RAM Boards requested and received a reimbursement from the University of Missouri-St. Louis for the amount of money inappropriately sent to UMSL as reimbursement for expenses at the Missouri Nanotechnology Conference in 2004.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

MISSOURI TECHNOLOGY CORPORATION HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

The Missouri Technology Corporation (MTC) was authorized by Section 348.251, RSMo, in 1994 to replace the Missouri Business Modernization and Technology Corporation. The MTC was organized and held its first board meeting on November 14, 1994, and its Articles of Incorporation were filed with the Secretary of State on January 10, 1995. The MTC is a private not-for-profit corporation.

The purposes of the MTC are to contribute to the strengthening of the economy of the state through development of science and technology, to promote the modernization of Missouri businesses by supporting the transfer of science, technology and quality improvement methods to the workplace, and to enhance the productivity and modernization of Missouri businesses by providing leadership in the establishment of methods of technology application, technology commercialization, and technology development.

Originally the primary function of MTC was to act as an advisory board. The administrative functions for the MTC were provided by Department of Economic Development (DED) staff. In fiscal years 2002 and 2003, the MTC was the funding conduit chosen by the legislature and the DED to participate in the development and ownership of the Fort Leonard Wood Technology Park in conjunction with the University of Missouri. The MTC, funded by state capital improvement appropriations, invested about \$1.5 million in the office building complex. The MTC was also involved with the 2002 Missouri Mathematics Academy, a training program for middle and high school math teachers, and the Base Realignment and Closure Studies for Fort Leonard Wood and Whiteman Air Force Base in 2004 and 2005.

In January 2004, the MTC hired a full time executive director, Joe Driskill, former director of DED. The administrative responsibility passed from DED staff to the MTC at that time. The legislature did not provide any funding for MTC or RAM in fiscal year 2006. Mr. Driskill resigned effective October 31, 2005, and a replacement has not been named.

The MTC board of directors is composed of fifteen persons and shall consist of the following members:

- 1) The director of the Department of Economic Development or his designee;
- 2) The president of the University of Missouri system or his designee;
- 3) A member of the state senate appointed by the president pro tem of the senate;
- 4) A member of the house of representatives appointed by the speaker of the house;
- 5) Eleven members appointed by the governor, two of which shall be from the public sector and nine members from the private sector who shall include, but shall not be limited to,

individuals who represent technology-based businesses and industrial interests. The governor shall appoint one of the private sector members as chairman.

The members of the MTC board of directors at June 30, 2005, were:

	Term Expires October 1,
Frank Stokes, Chairman*	2007
John Park, Vice-Chairman	2006
David Corwin, Secretary-Treasurer	2005
Dr. Jim Baker	2005
Dr. Robert Calcaterra	2008
Randall C. Ferguson, Jr.	2008
Dr. Martha Gilliland	2006
Stanley Salva	2007
Larry Sexton	2005
Greg Wendt	2008

At June 30, 2005, one board position was vacant.

Standing members are:

Greg Steinhoff, Director of Department of Economic Development

Elson Floyd, President, University of Missouri

Michael Gibbons, State Senator

Colonel J.C. Abney, ex-officio member, Fort Leonard Wood

At June 30, 2005, there was no appointed member from the Missouri House of Representatives.

*Effective November 1, 2005, Donn Rubin replaced Frank Stokes as Chairman.

In 2003, following a request by the governor and under a contractual agreement with DED, MTC established the Research Alliance of Missouri (RAM). The RAM is a cooperative effort of DED, MTC and many Missouri higher education institutions with active research and development programs. The primary goals of RAM, according to the 2005 strategic plan, are to increase the number of multi-university research proposals and awards and to improve university/industry relationships. Universities in the state with at least \$10 million in research and development expenditures annually are eligible for membership. The RAM is structured as a board with a senior research official of each member university serving as members.

The members of the RAM board of directors at June 30, 2005, were:

Theodore J. Cicero, Ph.D., Chair	Ronald A. MacQuarrie, Ph.D.
William A. Alter III, Ph.D., Vice Chair	Brian T. Reese
Nasser Arshadi, Ph.D.	Dennis Roedemeier
Donald Brennan, Ph.D.	Karel Schubert, Ph.D.
James Coleman, Ph.D.	Thomas R. Sharpe, Ph.D.
L. Scott Ellis, Ph.D.	Randall Shaw, Ed.D.
Gregory Fitch, Ph.D.	Margaret E. Stone, Ph.D.
Elsie Graber, Ph.D.	Greg Steinhoff

Wayne Huebner, Ph.D.
Marie Jennings
Stephen W. Lehmkuhle, Ph.D.

Frank Stokes
Frank Veeman, Ph.D.

Appendix

MISSOURI TECHNOLOGY CORPORATION
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH BALANCES

	Year Ended June 30				
	2005	2004	2003	2002	2001
RECEIPTS					
General Revenue Funding					
For Fort Leonard Wood Technology Park (FLWTP)	\$ -	-	590,000	893,407	-
For Innovation Center Development	69,799	-	-	-	-
For Research Alliance of Missouri (RAM)	86,286	80,000	-	-	-
For Base Realignment and Closure (BRAC) Projects	52,981	-	-	-	-
For Operations	215,714	200,000	-	-	-
Total General Revenue Funding	<u>424,780</u>	<u>280,000</u>	<u>590,000</u>	<u>893,407</u>	<u>-</u>
Other Funding Sources					
Math Academy Loan	-	-	-	110,000	-
Math Academy Contributions	-	16,500	73,500	-	-
RAM Donations	9,750	-	-	-	-
Local Match -FLWTP	-	32,000	-	-	-
Interest	1,362	232	4,242	1,534	162
Total Other Funding Sources	<u>11,112</u>	<u>48,732</u>	<u>77,742</u>	<u>111,534</u>	<u>162</u>
Total Receipts	<u>\$ 435,892</u>	<u>328,732</u>	<u>667,742</u>	<u>1,004,941</u>	<u>162</u>
DISBURSEMENTS					
Fort Leonard Wood Technology Park					
To University of Missouri Board of Curators for Construction Costs	\$ -	-	590,000	893,407	-
Innovation Center Development					
Joplin	30,799	-	-	-	-
Kansas City	30,000	-	-	-	-
Kirksville	9,000	-	-	-	-
Total Innovation Center Development	<u>69,799</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Math Academy					
Payments to Attendees/Teachers	-	-	-	92,480	-
Loan Payments & Interest	-	20,342	94,902	6,673	-
Expenses, Supplies, Meals, Housing	-	-	4,492	24,449	-
Total Math Academy	<u>\$ -</u>	<u>20,342</u>	<u>99,394</u>	<u>123,602</u>	<u>-</u>
Base Realignment and Closure Studies (BRAC) - MTC Share					
Fort Leonard Wood	\$ 11,011	15,127	-	-	-
Whitman Airforce Base	48,500	-	-	-	-
Total MTC Share BRAC Studies	<u>59,511</u>	<u>15,127</u>	<u>-</u>	<u>-</u>	<u>-</u>
Operations					
Salary & Benefits	131,516	62,214	-	-	-
Travel and Office Expense Reimbursements to Exec. Dir.	17,124	8,617	-	-	-
Rent	7,195	2,400	-	-	-
Utilities & Telephone	4,265	1,882	-	-	-
Furniture, Office & Computer Equipment	950	6,801	-	-	-
Printing, Postage & Delivery	9,990	146	-	-	-
Meetings - Food & Misc.	2,625	1,897	648	495	-
Accounting	15,956	5,771	1,950	-	-
Legal	9,555	13,461	-	-	-
Consulting/ Website Development Fees	10,136	2,500	-	-	-
Membership Dues	500	500	500	-	-
Conference Sponsorship	9,030	6,432	-	-	-
Travel for Board Members	276	-	1,172	-	-
Miscellaneous	1,918	5,822	226	5,096	-
Total MTC Operations	<u>221,036</u>	<u>118,443</u>	<u>4,496</u>	<u>5,591</u>	<u>-</u>
Total Disbursements	<u>\$ 350,346</u>	<u>153,912</u>	<u>693,890</u>	<u>1,022,600</u>	<u>-</u>
Beginning Cash Balance	<u>\$ 177,562</u>	<u>2,742</u>	<u>28,890</u>	<u>46,549</u>	<u>46,387</u>
Ending Cash Balance	<u>\$ 263,108</u>	<u>177,562</u>	<u>2,742</u>	<u>28,890</u>	<u>46,549</u>